

**CHILDREN'S HOPECHEST, INC.**

**FINANCIAL STATEMENTS**  
**With Independent Auditors' Report**

**December 31, 2004 and 2003**

# **CHILDREN'S HOPECHEST, INC.**

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## INDEPENDENT AUDITORS' REPORT

CAPIN CROUSE LLP  
Accountants & Consultants

1465 Kelly Johnson Blvd.

Suite 230

Colorado Springs, CO 80920

Telephone 719.528.6225

Facsimile 719.528.5910

[www.capincrouse.com](http://www.capincrouse.com)

Board of Directors

**Children's HopeChest, Inc.**

Colorado Springs, Colorado

We have audited the accompanying statements of financial position of Children's HopeChest, Inc. as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the ministry's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's HopeChest, Inc. as of December 31, 2004 and 2003, and the results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Capin Crouse LLP*

Colorado Springs, Colorado

April 13, 2005

# CHILDREN'S HOPECHEST, INC.

## Statements of Financial Position

	December 31,	
	2004	2003
<b>ASSETS:</b>		
Cash in U.S.	\$ 64,943	\$ 36,493
Cash held overseas	110,256	83,512
In-kind inventory	6,101	6,101
Fixed assets-net (Note 3)	328,418	140,810
<b>Total Assets</b>	<b>\$ 509,718</b>	<b>\$ 266,916</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 48,862	\$ 56,487
Accrued expenses	13,193	17,731
Capital lease obligation (Note 4)	19,455	-
Note payable (Note 5)	15,081	-
<b>Total liabilities</b>	<b>96,591</b>	<b>74,218</b>
<b>Net assets:</b>		
<b>Unrestricted:</b>		
Equity in fixed assets (Note 3)	293,882	140,810
Operating	(120,830)	(138,851)
	173,052	1,959
Temporarily restricted (Note 6)	240,075	190,739
<b>Total net assets</b>	<b>413,127</b>	<b>192,698</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 509,718</b>	<b>\$ 266,916</b>

See notes to financial statements

# CHILDREN'S HOPECHEST, INC.

## Statements of Activities

	Years Ended December 31,					
	2004			2003		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE:</b>						
Contributions:						
General	\$ 461,923	\$ 1,762,501	\$ 2,224,424	\$ 457,274	\$ 1,199,346	\$ 1,656,620
Contributed facilities and services	58,240	-	58,240	40,915	-	40,915
In-kind inventory gifts	-	4,543	4,543	-	137,909	137,909
	<u>520,163</u>	<u>1,767,044</u>	<u>2,287,207</u>	<u>498,189</u>	<u>1,337,255</u>	<u>1,835,444</u>
Other income	275	-	275	38	-	38
	<u>520,438</u>	<u>1,767,044</u>	<u>2,287,482</u>	<u>498,227</u>	<u>1,337,255</u>	<u>1,835,482</u>
Total support and revenue						
<b>RECLASSIFICATIONS:</b>						
Net assets released from purpose restrictions	<u>1,717,708</u>	<u>(1,717,708)</u>	<u>-</u>	<u>1,292,551</u>	<u>(1,292,551)</u>	<u>-</u>
<b>EXPENSES:</b>						
Program services	<u>1,661,364</u>	<u>-</u>	<u>1,661,364</u>	<u>1,609,861</u>	<u>-</u>	<u>1,609,861</u>
Supporting activities:						
General and administrative	211,217	-	211,217	243,902	-	243,902
Fund-raising	<u>194,472</u>	<u>-</u>	<u>194,472</u>	<u>113,055</u>	<u>-</u>	<u>113,055</u>
	<u>405,689</u>	<u>-</u>	<u>405,689</u>	<u>356,957</u>	<u>-</u>	<u>356,957</u>
Total expenses	<u>2,067,053</u>	<u>-</u>	<u>2,067,053</u>	<u>1,966,818</u>	<u>-</u>	<u>1,966,818</u>
Change in Net Assets	171,093	49,336	220,429	(176,040)	44,704	(131,336)
Net Assets—Beginning of Year	<u>1,959</u>	<u>190,739</u>	<u>192,698</u>	<u>177,999</u>	<u>146,035</u>	<u>324,034</u>
Net Assets—End of Year	<u>\$ 173,052</u>	<u>\$ 240,075</u>	<u>\$ 413,127</u>	<u>\$ 1,959</u>	<u>\$ 190,739</u>	<u>\$ 192,698</u>

See notes to financial statements

CARIN CROUSE LLP

# **CHILDREN'S HOPECHEST, INC.**

## **Statements of Cash Flows**

	Years Ended December 31,	
	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 220,429	\$ (131,336)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	28,335	20,444
Contributions restricted for long-term purposes	(289,118)	(5,150)
Changes in operating assets and liabilities:		
Cash held overseas	(26,744)	26,981
In-kind inventory	-	50,687
Accounts payable	(7,625)	(11,180)
Accrued expenses	(4,538)	(13,936)
Net Cash Used by Operating Activities	<u>(79,261)</u>	<u>(63,490)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	<u>(194,868)</u>	<u>(35,120)</u>
Net Cash Used by Investing Activities	<u>(194,868)</u>	<u>(35,120)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions restricted for long-term purposes	289,118	5,150
Proceeds from new borrowings	18,639	-
Principal payments on note payable	(3,558)	-
Principal payments on capital lease obligation	<u>(1,620)</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>302,579</u>	<u>5,150</u>
Increase (Decrease) in Cash in U.S.	28,450	(93,460)
Cash in U.S.—Beginning of Year	<u>36,493</u>	<u>129,953</u>
Cash in U.S.—End of Year	<u><u>\$ 64,943</u></u>	<u><u>\$ 36,493</u></u>
<b>Supplemental Disclosures:</b>		
Interest paid	<u>\$ 6,137</u>	<u>\$ -</u>
Fixed asset acquired by capital lease	<u><u>\$ 21,075</u></u>	<u><u>\$ -</u></u>

See notes to financial statements

# CHILDREN'S HOPECHEST, INC.

## Notes to Financial Statements

December 31, 2004 and 2003

### 1. NATURE OF ORGANIZATION:

Children's HopeChest, Inc. (CHC) is a nonprofit organization, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is not a private foundation under Section 509(a)(2) of the Code.

Children's HopeChest responds to God's desire to create a world where every orphan knows Him, experiences the blessing of family, and acquires the skills necessary for independent life. This is carried out by serving orphans while in their institution and also with programs designed for older orphans to successfully transition into contributing members of their society

HopeChest humanitarian aid, educational assistance, spiritual encouragement, emotional guidance, medical and dental care, camps, foster care, Family Centers, Independent Living programs, and Ministry Center outreach programs are all designed to meet short and long term needs of orphans.

Camp programs, though not as prevalent as in our early years, is used primarily as a tool to meet orphans from new orphanages, and bring them into contact with our international staff members. This provides a foundation for relationship that extends into our sponsorship program, as well as our older orphan programs. As they have in the past, camp also provides one of the best opportunities to share the good news of God's love through both word and deed.

Institutionalized children often have a difficult time transitioning into normal family settings. Providing foster care and transitional homes are healthy alternatives to institutions. Many orphanages desire to pursue family care programs, but seek HopeChest training and financial support provided by Children's HopeChest to accomplish this goal.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The significant accounting policies are described as follows:

#### CASH

Cash and cash equivalents include checking, savings and money market accounts. These accounts may, at times, exceed federally insured limits. CHC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.



# CHILDREN'S HOPECHEST, INC.

## Notes to Financial Statements

December 31, 2004 and 2003

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### IN-KIND INVENTORY

Contributions of in-kind goods consisting of shoes, socks, clothing, food, and medical supplies were received during the year and were recorded as support and revenue in the statements of activities. In-kind inventory consists of shoes, socks, and clothing that was held by CHC at December 31, 2004 and 2003 and has been recorded at its estimated fair value.

#### FIXED ASSETS-NET

Fixed assets-net is capitalized at cost, or if donated, at fair market value on the date of the gift. CHC capitalizes fixed asset purchases exceeding \$1,000, with lesser amounts expensed in the year purchased. Some assets are held in a foreign country where certain risks exist that may result in a loss of the assets for CHC. However, CHC does not believe it is exposed to any significant risk as a result of these assets. Depreciation is computed on the straight-line basis over the estimated useful lives ranging from 3-30 years. Depreciation expense was \$28,335 and \$20,444 for the years ended December 31, 2004 and 2003, respectively.

#### CLASSES OF NET ASSETS

The financial statements report amounts separately by the following classes of net assets:

- **Unrestricted** amounts are those currently available for use in CHC's operations and those resources invested in fixed assets.
- **Temporarily restricted** amounts are comprised of donor-restricted contributions for the support of various projects conducted by CHC.

#### SUPPORT AND REVENUE

Contributions are recorded when made, which may be when cash and other assets are received or unconditionally promised. Revenue is recorded when earned. Contributions restricted by the donor for a specific purpose are recorded as support in the temporarily restricted class of net assets until funds have been expended by CHC for the purpose specified. Upon satisfaction of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from purpose restrictions.

#### CONTRIBUTED FACILITIES AND SERVICES

CHC received contributed services and rents, which are recorded when received. For the years ended December 31, 2004 and 2003, contributed services totaled \$40,000 and \$18,000, respectively. Contributed rents for the same periods totaled \$18,240 and \$22,915, respectively.



# CHILDREN'S HOPECHEST, INC.

## Notes to Financial Statements

December 31, 2004 and 2003

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### FOREIGN OPERATIONS

In connection with its ministry, CHC maintains fields in other countries outside the United States. As of December 31, 2004 and 2003, assets in other countries, which consist of cash and fixed assets, totaled \$376,778 and \$205,646, respectively. Total support and revenue received from foreign sources totaled \$0 and \$11,810 for the years ended December 31, 2004 and 2003, respectively.

#### FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs, such as depreciation and salaries, have been allocated among the programs services and supporting activities benefited.

#### RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to current year presentation.

### 3. FIXED ASSETS-NET:

Fixed assets-net consists of the following:

	December 31, 2004		
	United States	Other Countries	Total
Buildings	\$ -	\$ 271,251	\$ 271,251
Computer equipment	68,708	12,376	81,084
Vehicles	18,639	43,976	62,615
Furniture and equipment	18,983	20,275	39,258
	106,330	347,878	454,208
Accumulated depreciation	(44,434)	(81,356)	(125,790)
Fixed assets-net	\$ 61,896	\$ 266,522	\$ 328,418

# CHILDREN'S HOPECHEST, INC.

## Notes to Financial Statements

December 31, 2004 and 2003

### 3. FIXED ASSETS-NET, continued:

	December 31, 2003		
	United States	Other Countries	Total
Buildings	\$ -	\$ 111,451	\$ 111,451
Computer equipment	34,704	12,376	47,080
Vehicles	-	43,976	43,976
Furniture and equipment	18,982	16,775	35,757
	53,686	184,578	238,264
Accumulated depreciation	(35,010)	(62,444)	(97,454)
Fixed assets-net	<u>\$ 18,676</u>	<u>\$ 122,134</u>	<u>\$ 140,810</u>

Equity in fixed assets consists of the following:

	December 31,	
	2004	2003
Fixed assets-net	\$ 328,418	\$ 140,810
Capital lease obligation	(19,455)	-
Note payable	(15,081)	-
Equity in fixed assets	<u>\$ 293,882</u>	<u>\$ 140,810</u>

### 4. CAPITAL LEASE OBLIGATION:

CHC entered into a capital lease for an accounting software system during 2004. The cost of this equipment was \$21,075 for the year ended December 31, 2004. The software had not been placed into service as of December 31, 2004. Therefore, there is no amortization for 2004. Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	
2005	\$ 8,025
2006	8,025
2007	6,019
	<u>22,069</u>
Amounts representing interest	<u>(2,614)</u>
	<u>\$ 19,455</u>

# CHILDREN'S HOPECHEST, INC.

## Notes to Financial Statements

December 31, 2004 and 2003

5. NOTE PAYABLE:

During 2004, CHC converted an auto lease into a note payable for the automobile of \$18,578, secured by the automobile, monthly payments of \$433, including interest at 5.65%, maturing in 2008. Future maturities of the note payable are as follows:

<u>Years Ending December 31,</u>	
2005	\$ 4,465
2006	4,724
2007	4,998
2008	894
	<hr/>
	\$ 15,081
	<hr/>

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consists of the following:

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Program support	\$ 169,237	\$ 111,831
Sponsorship	62,583	43,641
Staff support	4,959	25,267
Trips & conferences	3,296	10,000
	<hr/>	<hr/>
	\$ 240,075	\$ 190,739
	<hr/>	<hr/>

7. RETIREMENT PLAN:

CHC converted over to a SIMPLE IRA plan from an individual 403(b) retirement plan in 2004. CHC makes contributions into the individual retirement plans on behalf of eligible U.S. employees. The amount of the contribution is equal to three and ten percent of the employee's gross salary for 2004 and 2003, respectively. During the years ended December 31, 2004 and 2003, CHC made employer contributions of \$9,557 and \$27,284, respectively.

8. COMMITMENTS:

CHC has a related party month-to-month lease agreement for office space with a board member. Rent expense for the years ended December 31, 2004 and 2003 was \$37,440 and \$32,460, respectively.